

MEMORANDUM

TO: PARTICIPATING LENDERS

FROM: ADFA DEVELOPMENT FINANCE DIVISION

RE: BEGINNING FARMER LOAN PROGRAM

DATE: OCTOBER 31, 2000

The ADFA Beginning Farmer Loan Program is a tax-exempt bond program designed to assist Beginning Farmers in the state of Arkansas acquire agricultural property at lower interest rates. The Bonds issued are essentially bank loans rendered tax-exempt by means of the program, which allows a lending institution/bond purchaser (here after "Bond Purchaser") to receive tax-exempt interest with respect to a direct loan (or contract sale) made to a Beginning Farmer.

In other states, the interest rate passed on to the borrower has been lowered anywhere from 1 to 3%. All terms and conditions of the transaction are negotiated directly by the farmer and his or her banker.

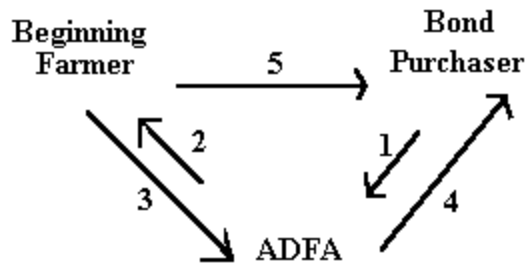
A loan made under the program is funded solely from the Bond sold to the Bond Purchaser. The Authority has no independent funds to fund a loan. Therefore, a Beginning Farmer must submit an application with a Bond Purchaser who is able to purchase the Authority's Bond to fund the Beginning Farmer's loan. The Authority shall not be liable or responsible for the failure of a Beginning Farmer to locate an alternate Bond Purchaser in the event of a failure of performance by the Beginning Farmer's initial Bond Purchaser.

The Bond Purchaser will make a credit evaluation of the Beginning Farmer, may require any collateral deemed necessary and, with the Beginning Farmer, must arrange the terms of the loan or contract. The Bond will be a limited obligation of ADFA, and will be solely secured by the loan or contract and collateral provided by the Beginning Farmer. The Bond Purchaser will be responsible for the creation and perfection of any security interest which the Bond Purchaser deems necessary for the loan.

To participate in the program, the borrowers and lenders will jointly submit applications provided ADFA. ADFA staff and Bond Counsel will review the application and the ADFA Board will approve and induce the project and approve the bond documents. The forms of documents to be used in this transaction will be prepared by Bond Counsel, including resolutions, documentation, loan agreements, security documents, closing documents and certificates, to the extent such documents are required to issue the bonds.

The financing documents will be sent to the lender with a bond closing statement letter and bond closing checklist. The lender, borrower and ADFA will execute the lending documents and submit them to Bond Counsel. The Bond Counsel will grant to ADFA the authority to have the lender disburse the funds to the borrowers' project fund account. Bond Counsel will prepare the opinion and send it to the lender.

The Bond Purchaser, after arranging the loan, will obtain from ADFA a state and federally tax exempt bond in the amount of the loan. In the case of a loan, the amount paid by the Bond Purchaser for the Bond will be lent to the Beginning Farmer by the Authority, and that loan and its collateral will be assigned to the Bonds Purchaser as security for the bond. (In the case of a contract sale, the contract will be entered into by ADFA and the Bond Purchaser.) Perhaps this diagram will assist your in understanding the process:



1. Bond purchased by Bond Purchaser from ADFA;
2. Bond proceeds lent by Authority to Beginning Farmer;
3. Beginning Farmer gives promissory note to ADFA;
4. Promissory note assigned to Bond Purchaser as security for the Bond;
5. Beginning Farmer makes loan payments to Bond Purchaser.

The Bond Purchaser will receive the bond to evidence ADFA's obligations under the contract. ADFA's right, title, and interest in the contract will then be assigned to the Beginning Farmer who will assume the payment obligations of ADFA under the contract.